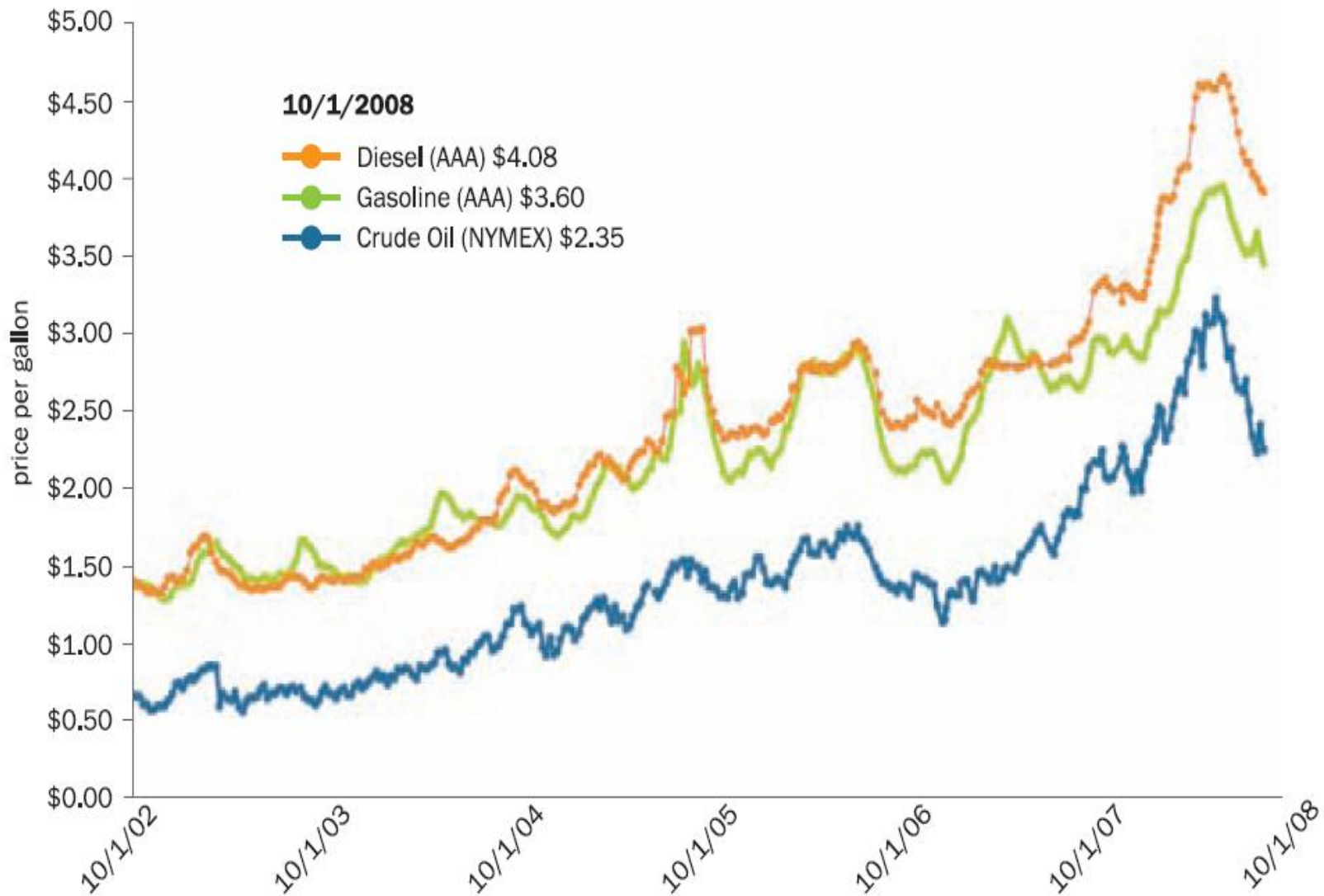


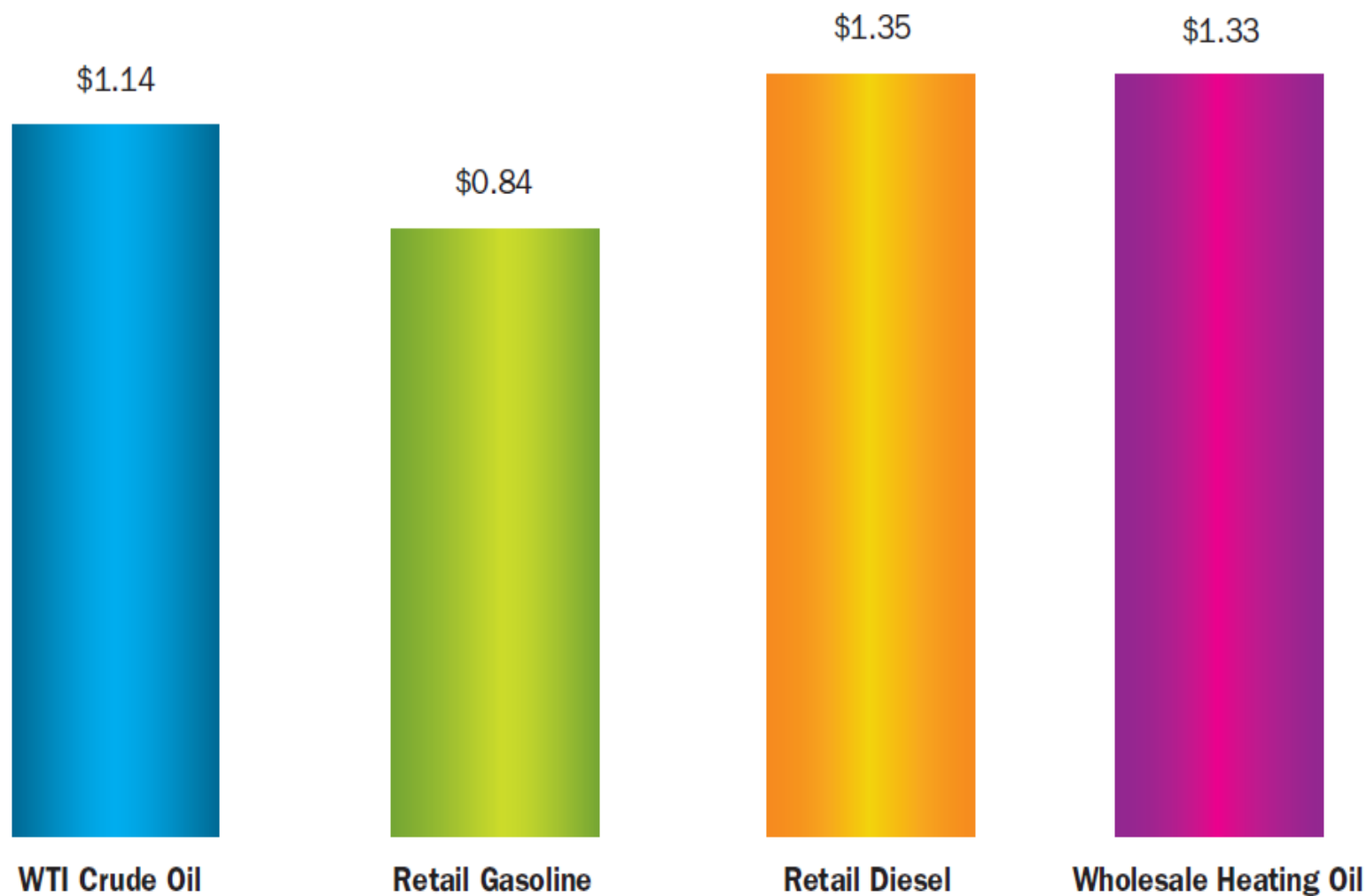
COMMISSION ON STATE TAX AND FINANCING POLICY  
Maggie McShane  
Executive Director, Indiana Petroleum Council  
Wednesday, October 8, 2008

## Diesel, Gasoline and Crude Prices



Source: NYMEX (WTI crude oil) and AAA (gasoline and diesel)

**Average Price Increases Year to Date (cents per gallon) — January 1 to September 23**



Source: NYMEX (WTI crude oil and heating oil) and AAA (gasoline and diesel)



## Key Factors Affecting Markets



Value of  
U.S. Dollar

Weather



Iraq  
Insurgency

Russia



Nigerian  
Civil Strife



OPEC Decisions



Venezuela

**Estimated Crude and Products Imports  
to the U.S. from Leading Supplier Countries**

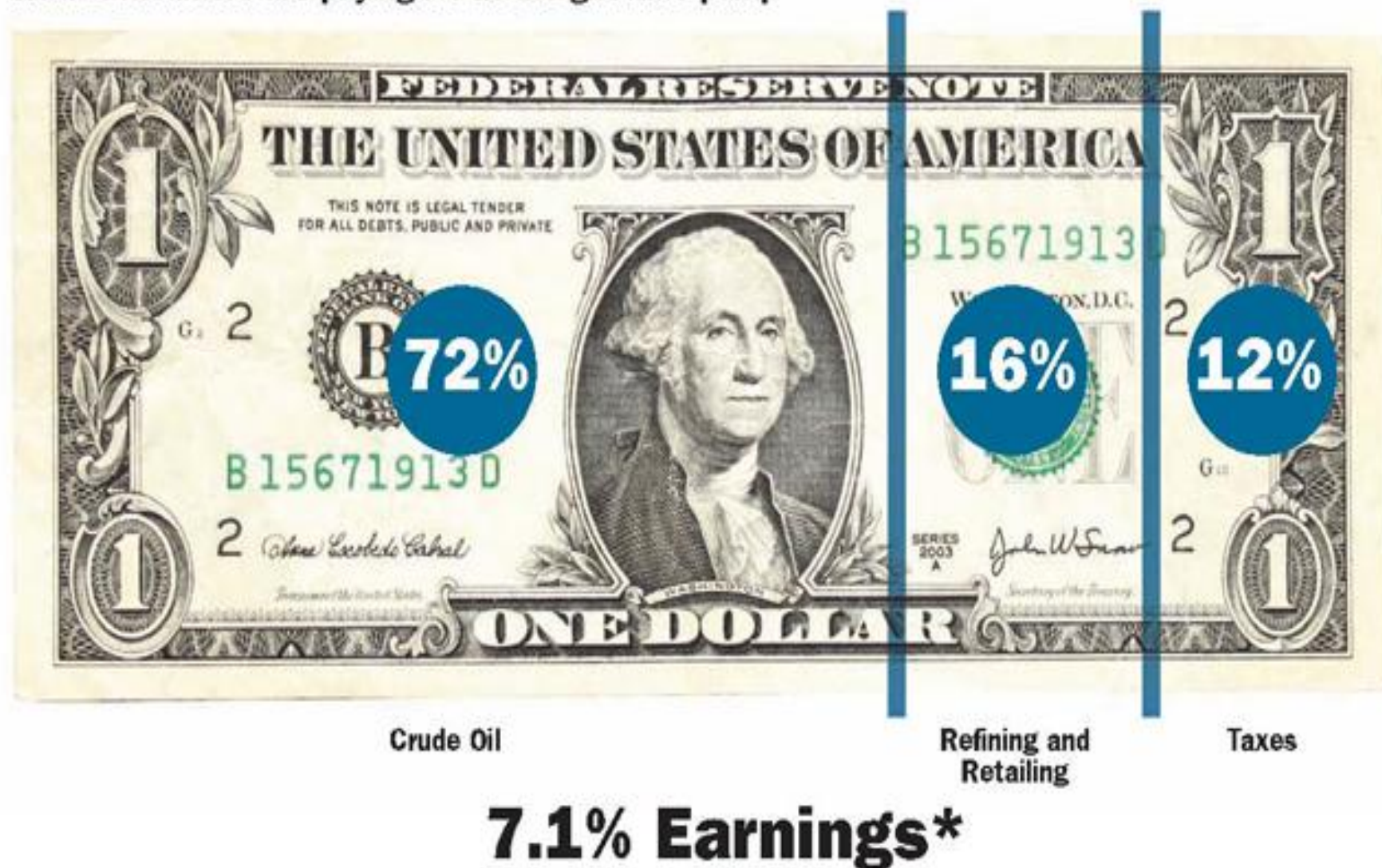
	<b>June 2008 Imports (Thousand Barrels per Day)</b>	<b>% of Total Imports</b>	<b>% of Domestic Product Supplied</b>
1 Canada	2,119	18.9%	10.8%
2 Saudi Arabia	1,493	13.3%	7.6%
3 Venezuela	1,187	10.6%	6.1%
4 Nigeria	1,011	9.0%	5.2%
5 Mexico	811	7.2%	4.1%
6 Russia	764	6.8%	3.9%
7 Iraq	693	6.2%	3.5%
8 Angola	649	5.8%	3.3%
9 Algeria	492	4.4%	2.5%
10 Virgin Islands*	314	2.8%	1.6%
Other	1,669	14.9%	8.5%
<b>Total</b>	<b>11,202</b>	<b>100.0%</b>	<b>57.3%</b>
 OPEC Countries	 6,009	 53.6%	 30.7%
Persian Gulf Countries	2,389	21.3%	12.2%

<b>January-June 2008</b>			
1 Canada	2,226	20.0%	11.3%
2 Saudi Arabia	1,537	13.8%	7.8%
3 Venezuela	1,147	10.3%	5.8%
4 Nigeria	1,087	9.7%	5.5%
5 Mexico	900	8.1%	4.5%
6 Iraq	674	6.0%	3.4%
7 Algeria	535	4.8%	2.7%
8 Angola	506	4.5%	2.6%
9 Russia	473	4.2%	2.4%
10 Virgin Islands*	336	3.0%	1.7%
Other	1,731	15.5%	8.8%
<b>Total</b>	<b>11,152</b>	<b>100.0%</b>	<b>56.4%</b>
 OPEC Countries	 6,026	 54.0%	 30.5%
Persian Gulf Countries	2,440	21.9%	12.3%

\*Supplier of products made from crude oil

Source: DOE, Petroleum Supply Monthly, August 2008

## What consumers are paying for at the gasoline pump



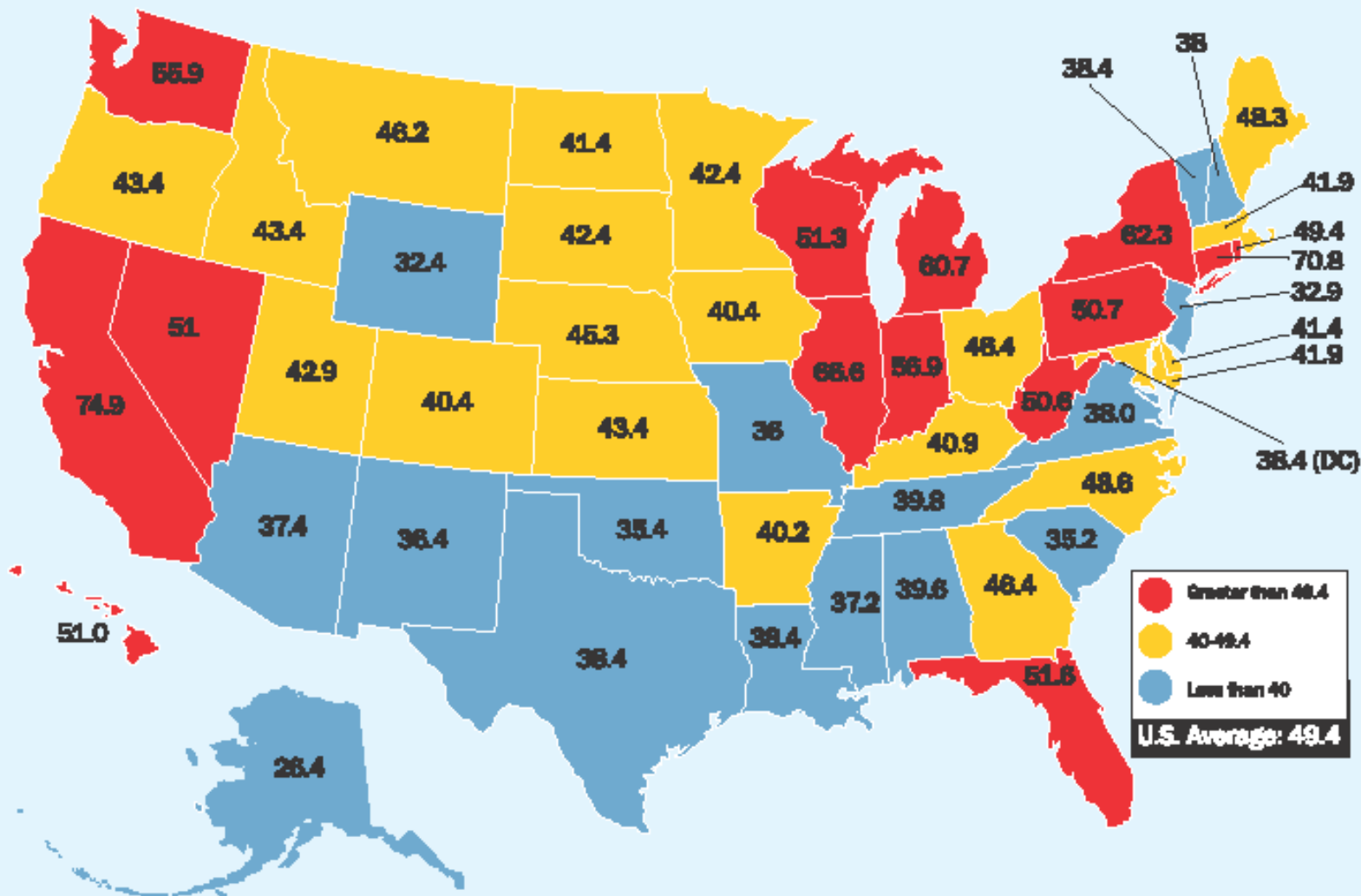
Source: Average of gasoline components from January through June 2008 as reported by EIA.

\*Earnings differ by company. Figure represents average for the first half of 2008 industry earnings for every dollar of sales calculated from data reported by Oil Daily.

# Gasoline Taxes

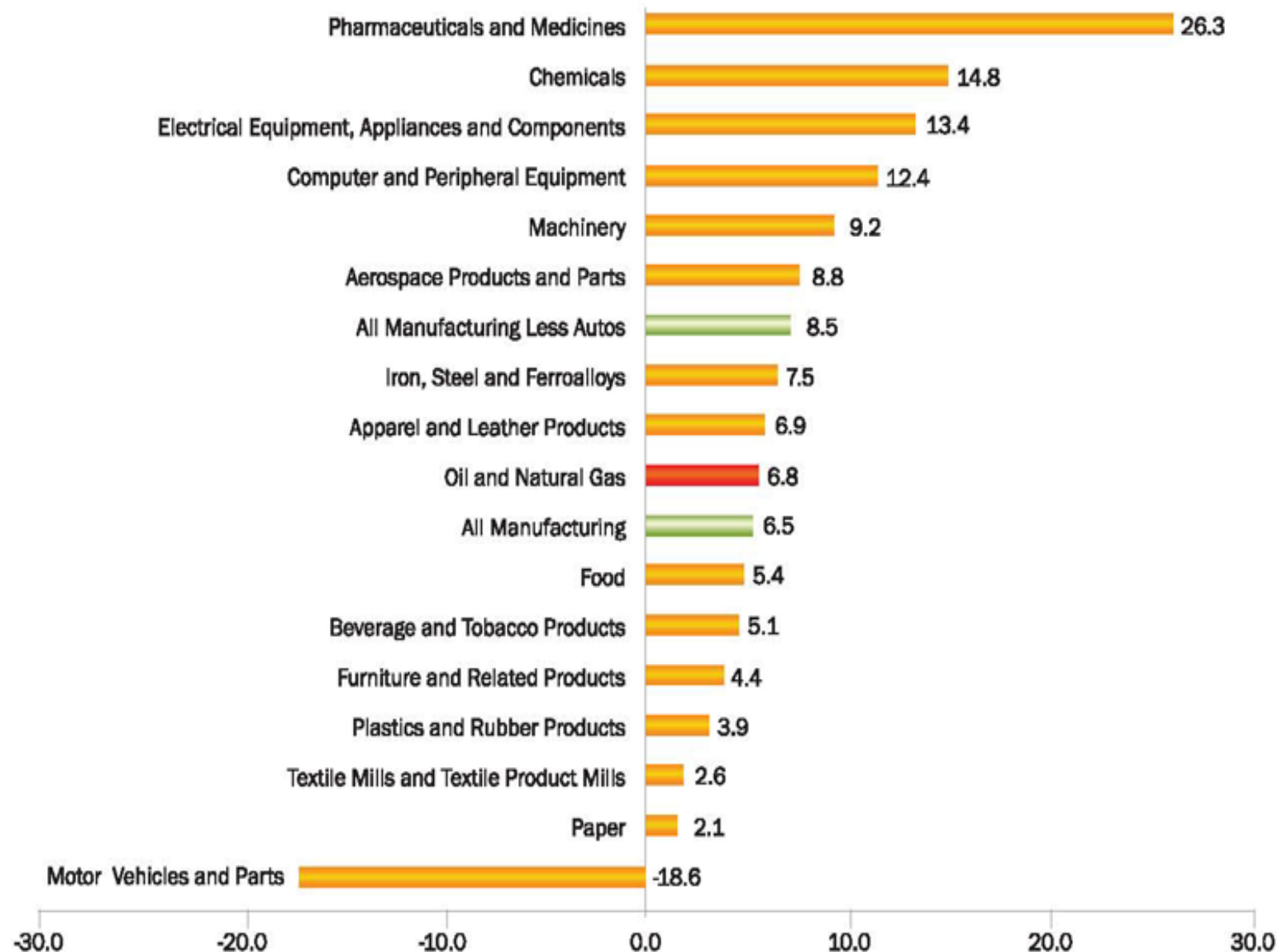
Combined Local, State and Federal (Cents per gallon)

JULY 2008





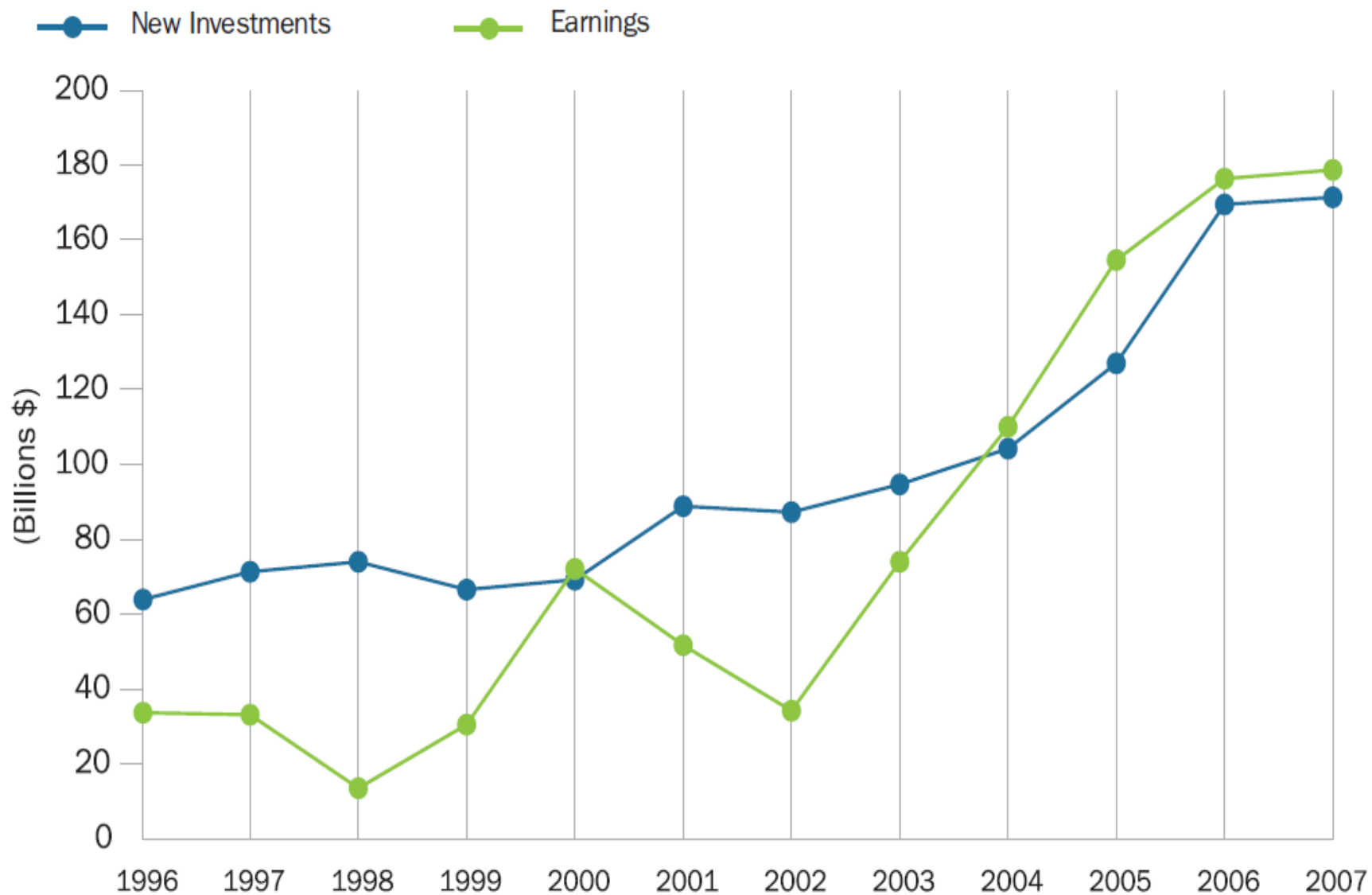
## Second Quarter of 2008 Earnings by Industry (net income/sales)



Sources: Based on company filings with the federal government as reported by U.S. Census Bureau and *Oil Daily*.

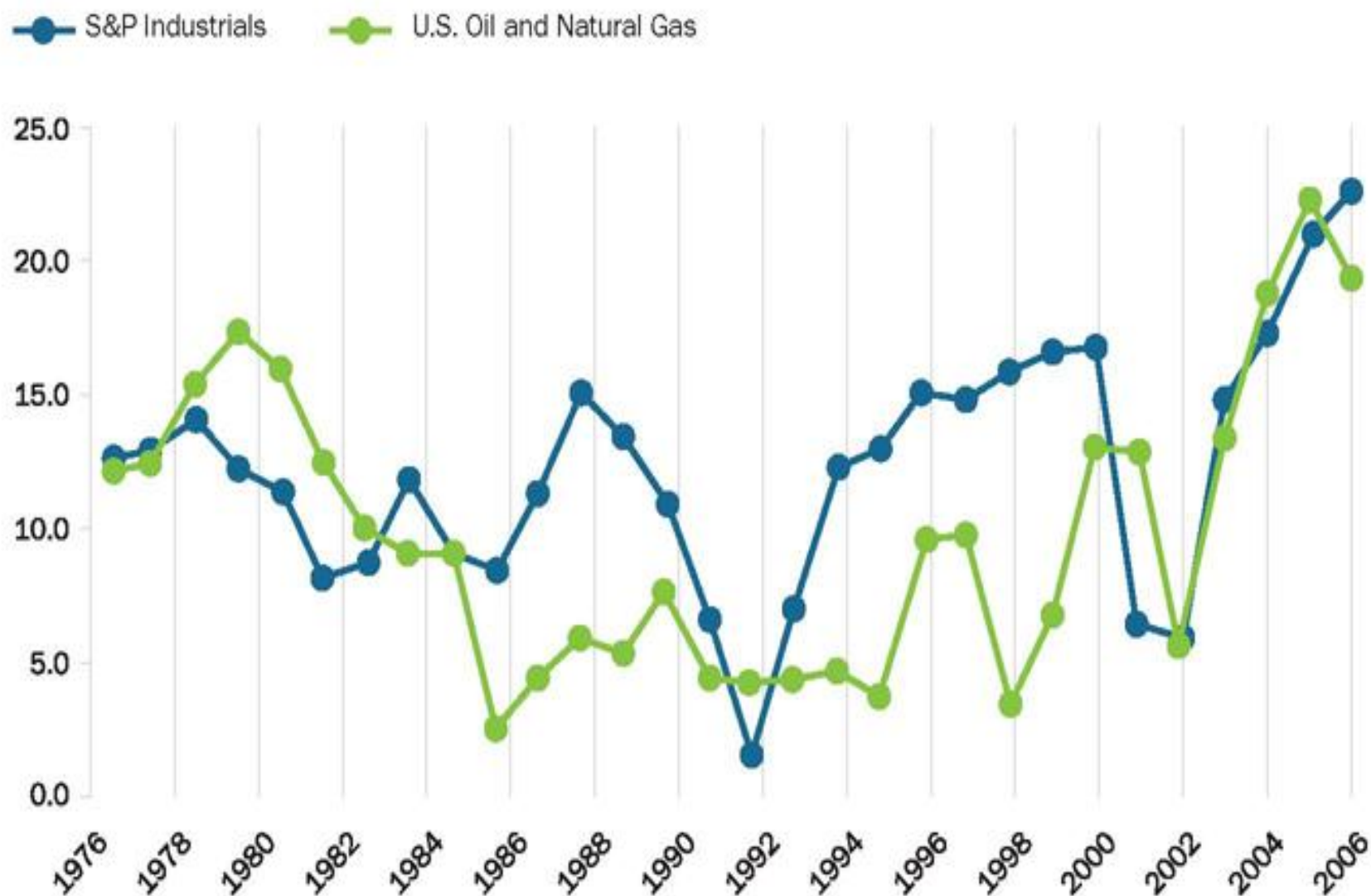


## Oil and Natural Gas New Investments and Earnings



Source: Ernst & Young

## Return on Investment (net income/net investment in place)

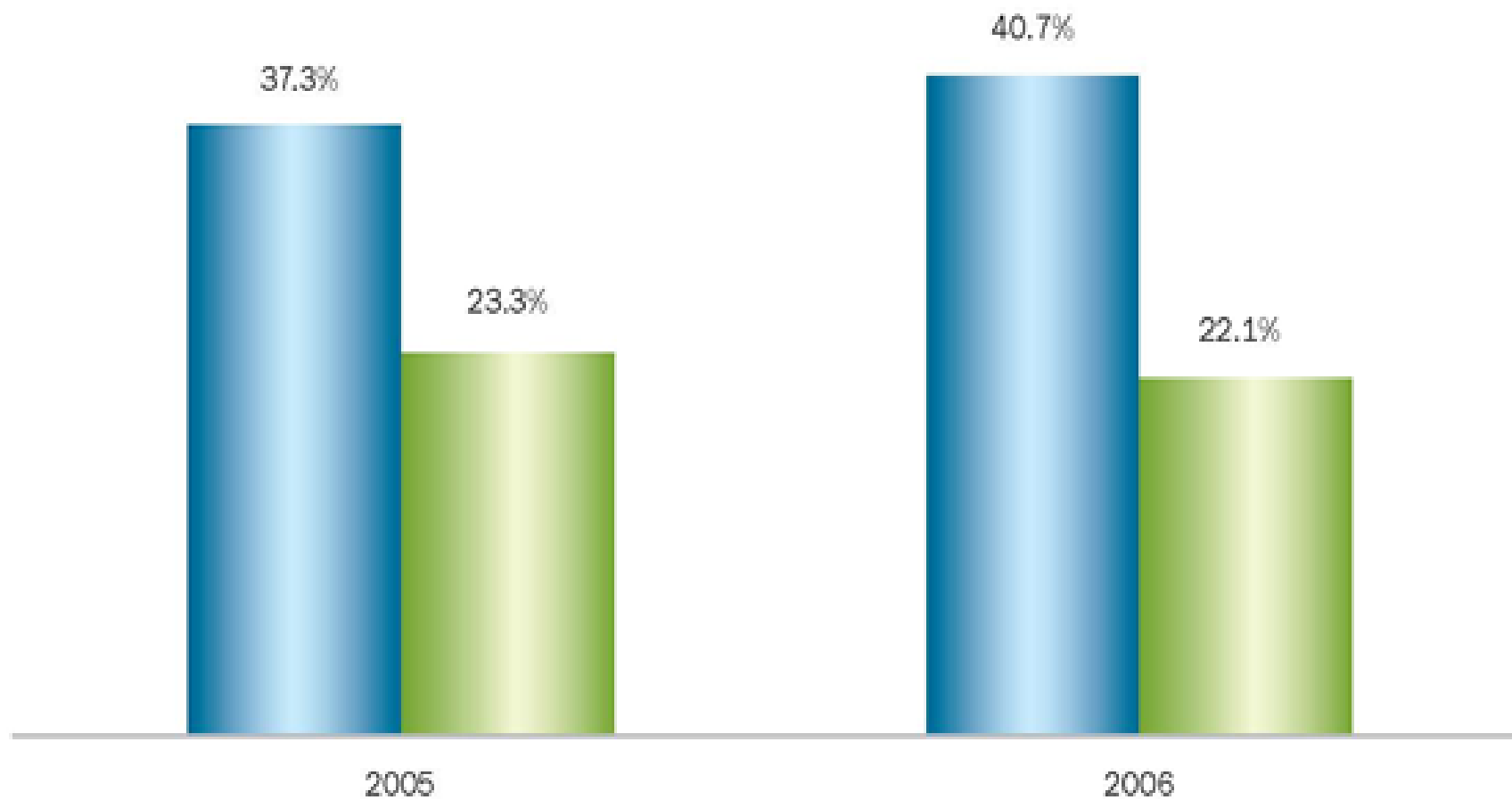


Source: EIA, *Performance Profiles of Major Energy Producers*, various issues and 2006 S&P figure compiled by PWC from Compustat data.

## Income Tax Expenses as Share of Net Income Before Income Taxes

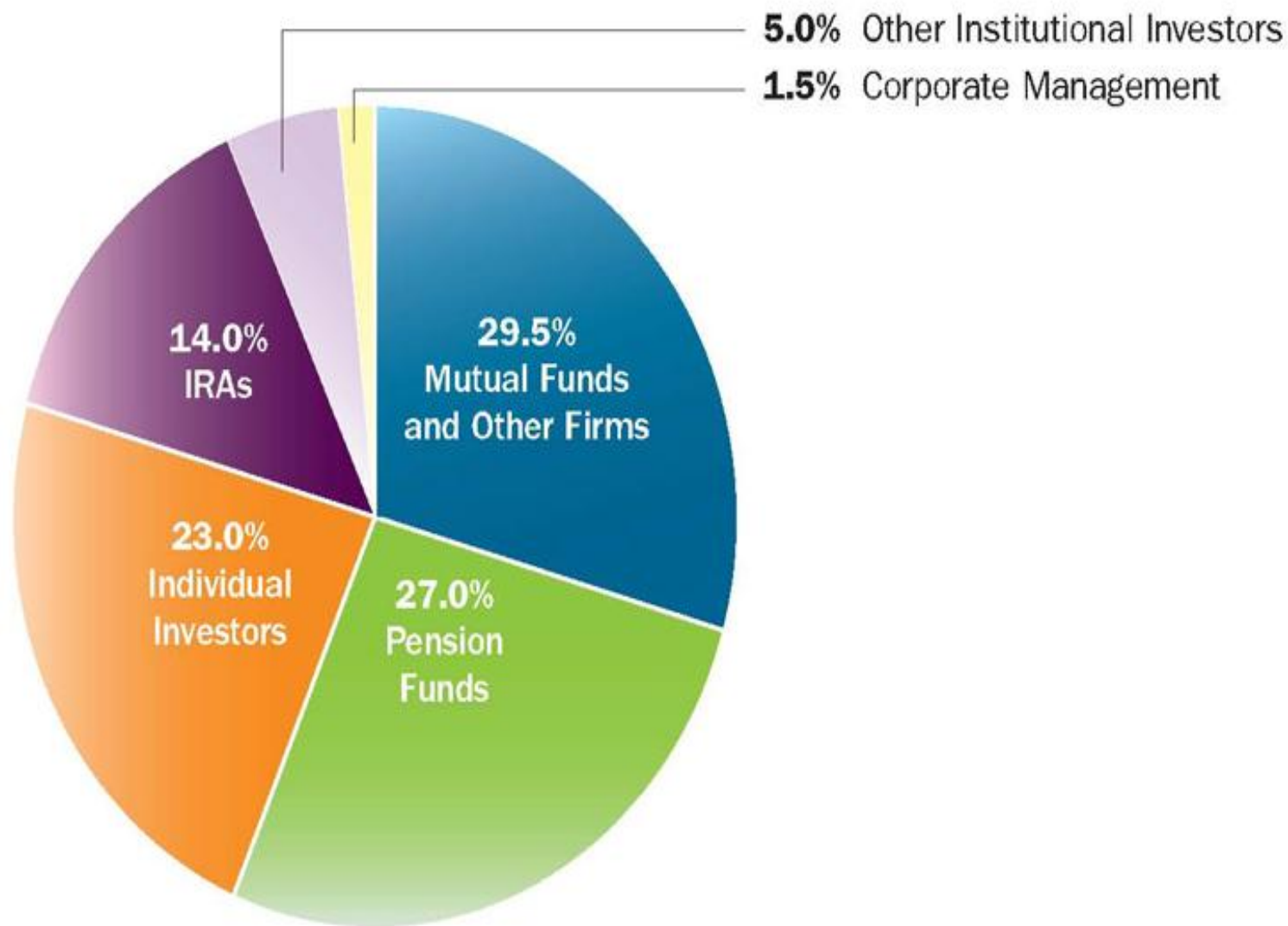
Oil Companies<sup>1</sup>

All Manufacturing Companies



Source: EIA, *Performance Profiles of Major Energy Producers*, Table B2

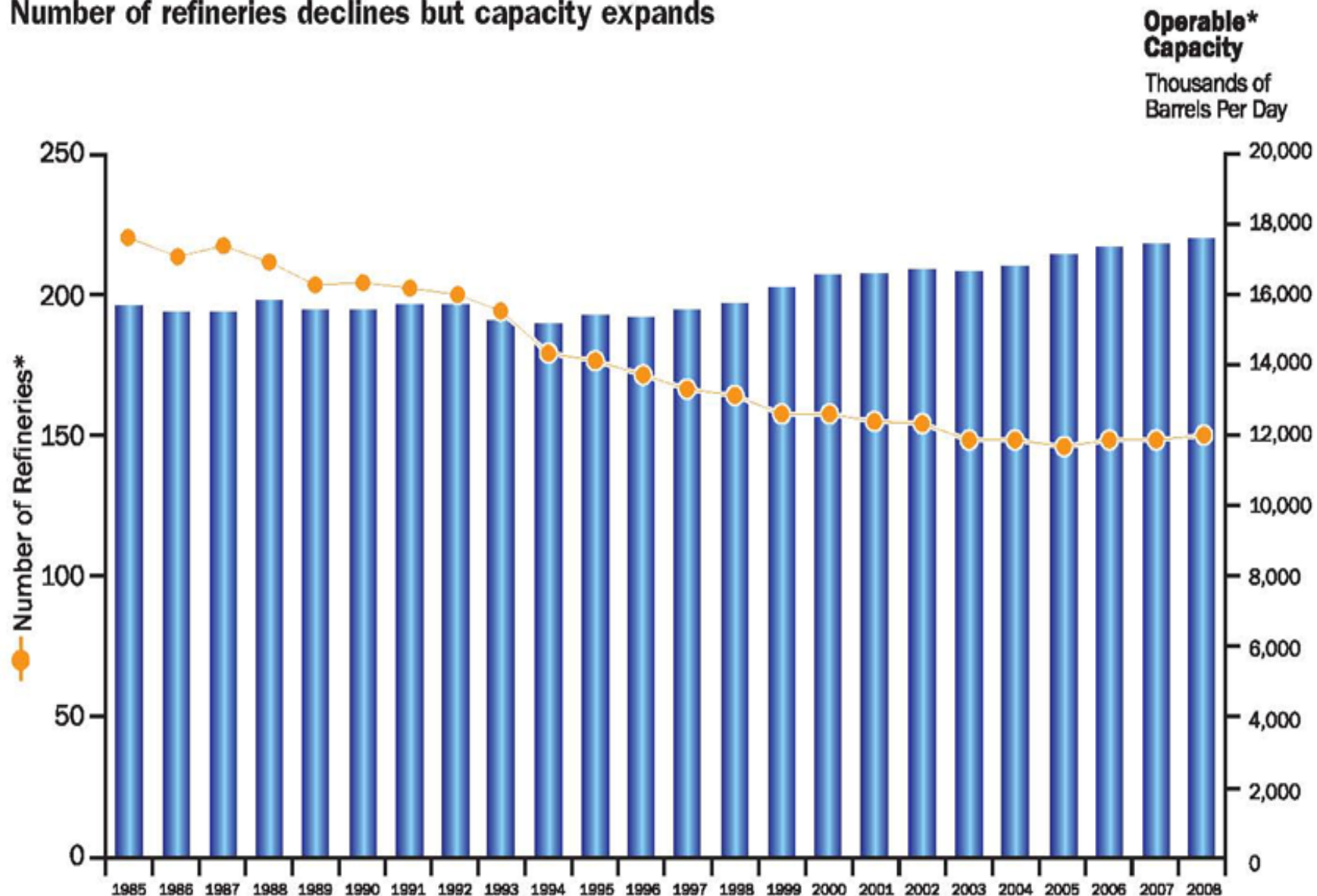
## Who Owns “Big Oil”? (Holdings of Oil Stocks, 2007)



Source: SONECON, *The Distribution of Ownership of U.S. Oil and Natural Gas Companies*, September 2007



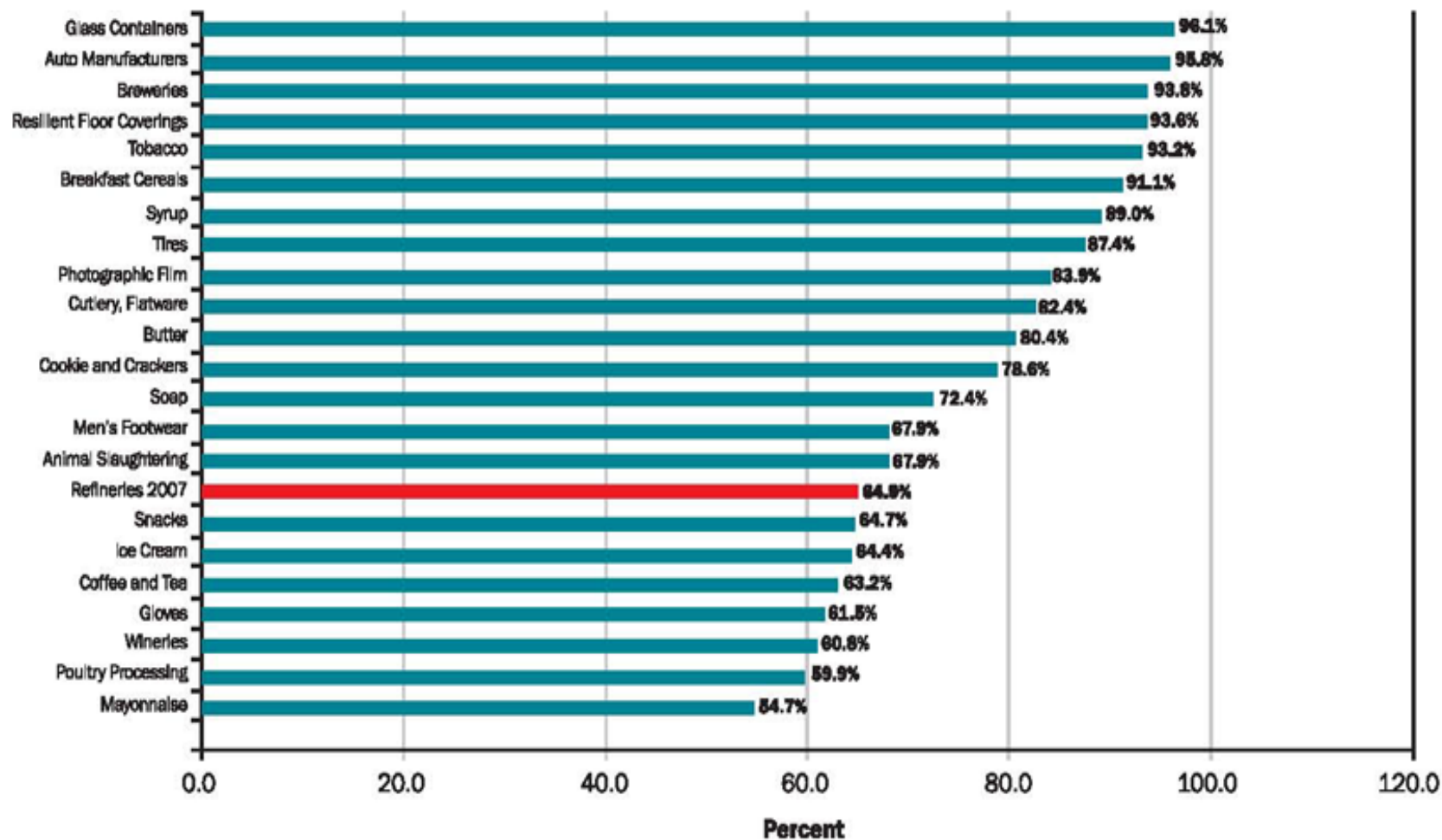
## Number of refineries declines but capacity expands



\*Operable as of January 1st

Source: DOE

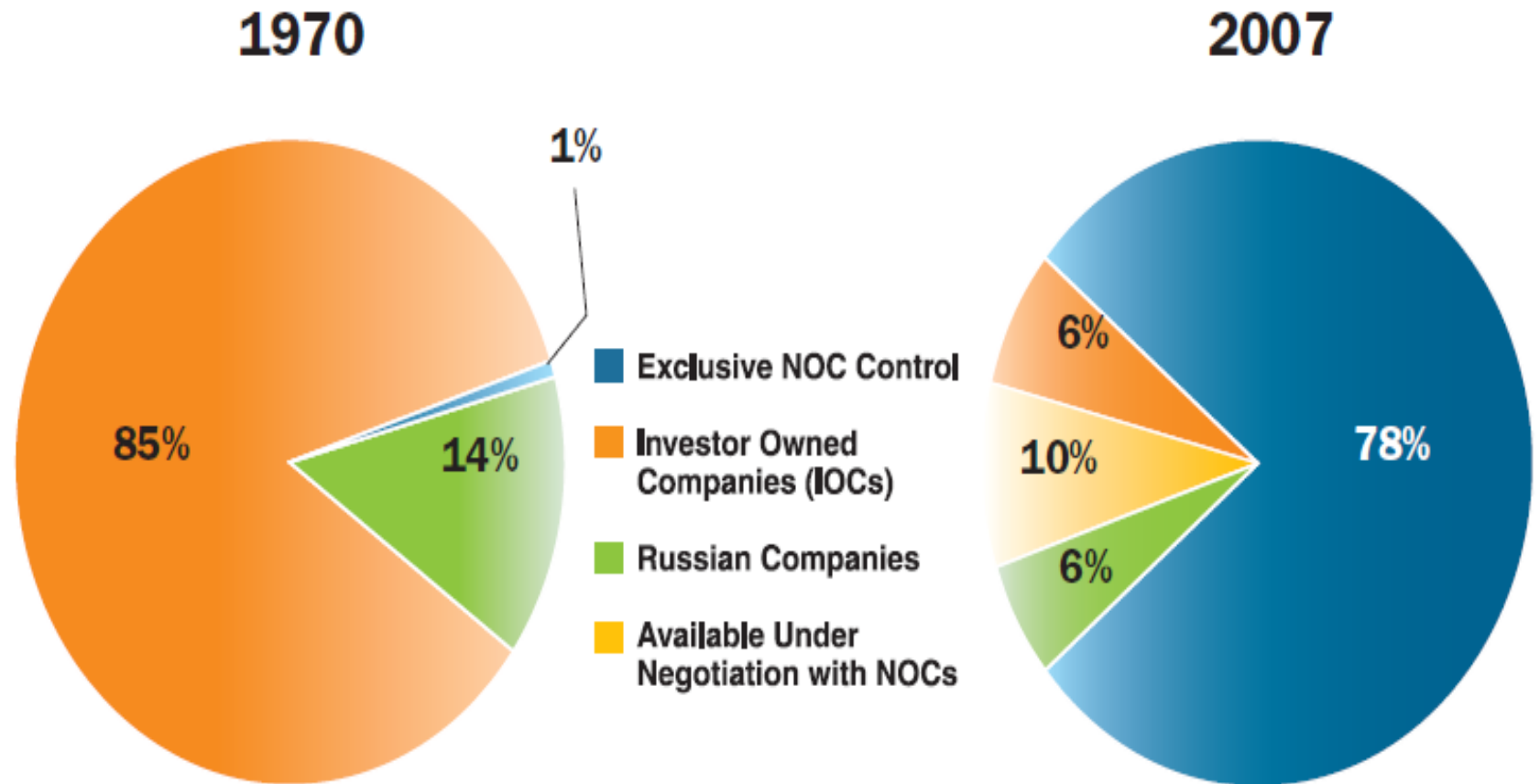
## Eight-Firm Concentration (2002) – Percent of Market Composed of the Eight Largest Firms



Source: Energy Information Administration for Refineries 2008, adjusted for sale of Krotz Springs from Valero to Alon.  
U.S. Department of Commerce for all others.

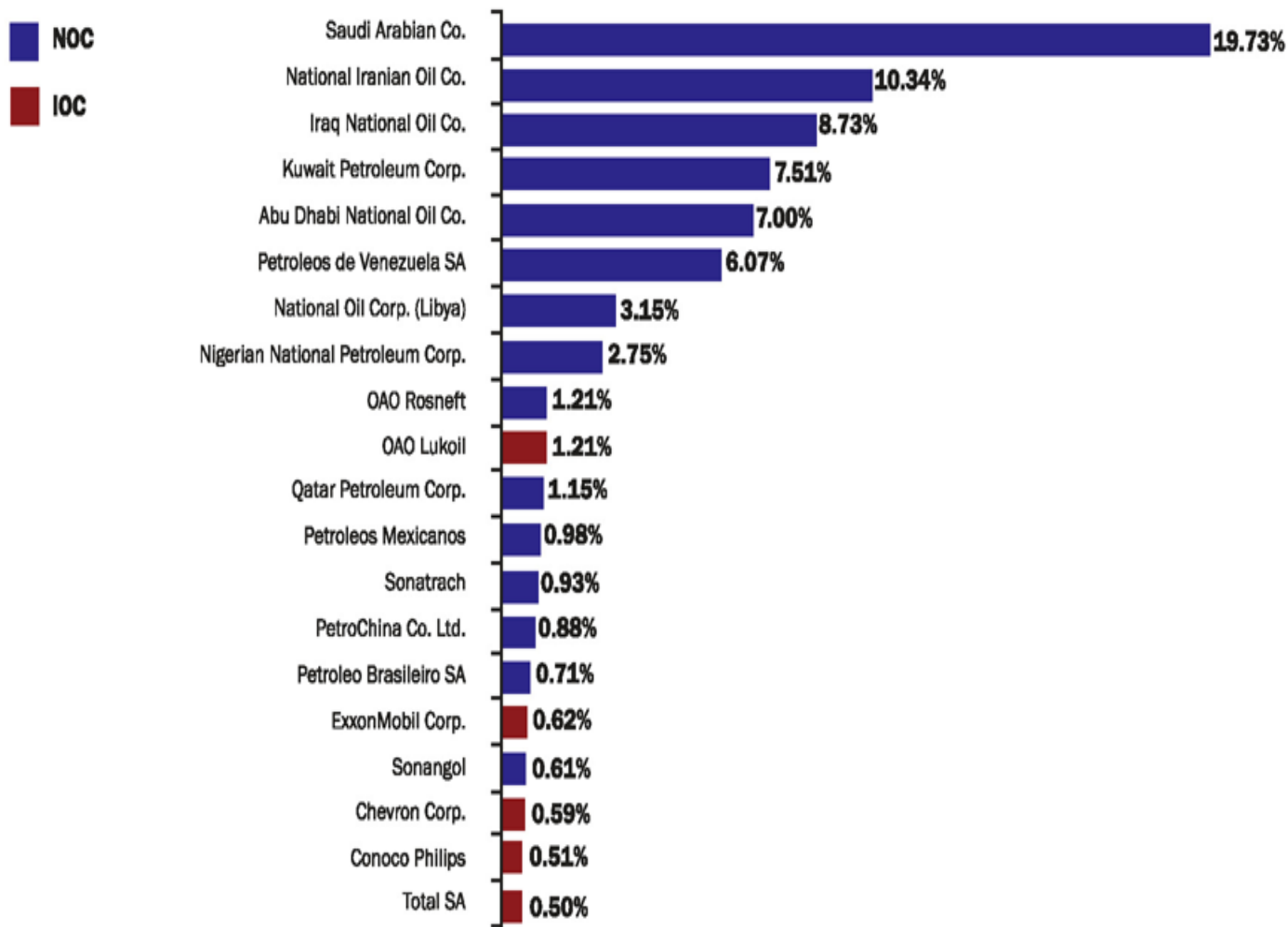
## The Myth of “Big Oil” (As a Percent of Proven Reserves)

### National Oil Companies (NOCs) Increasingly Control the World's Oil Reserves



Source: PFC Energy

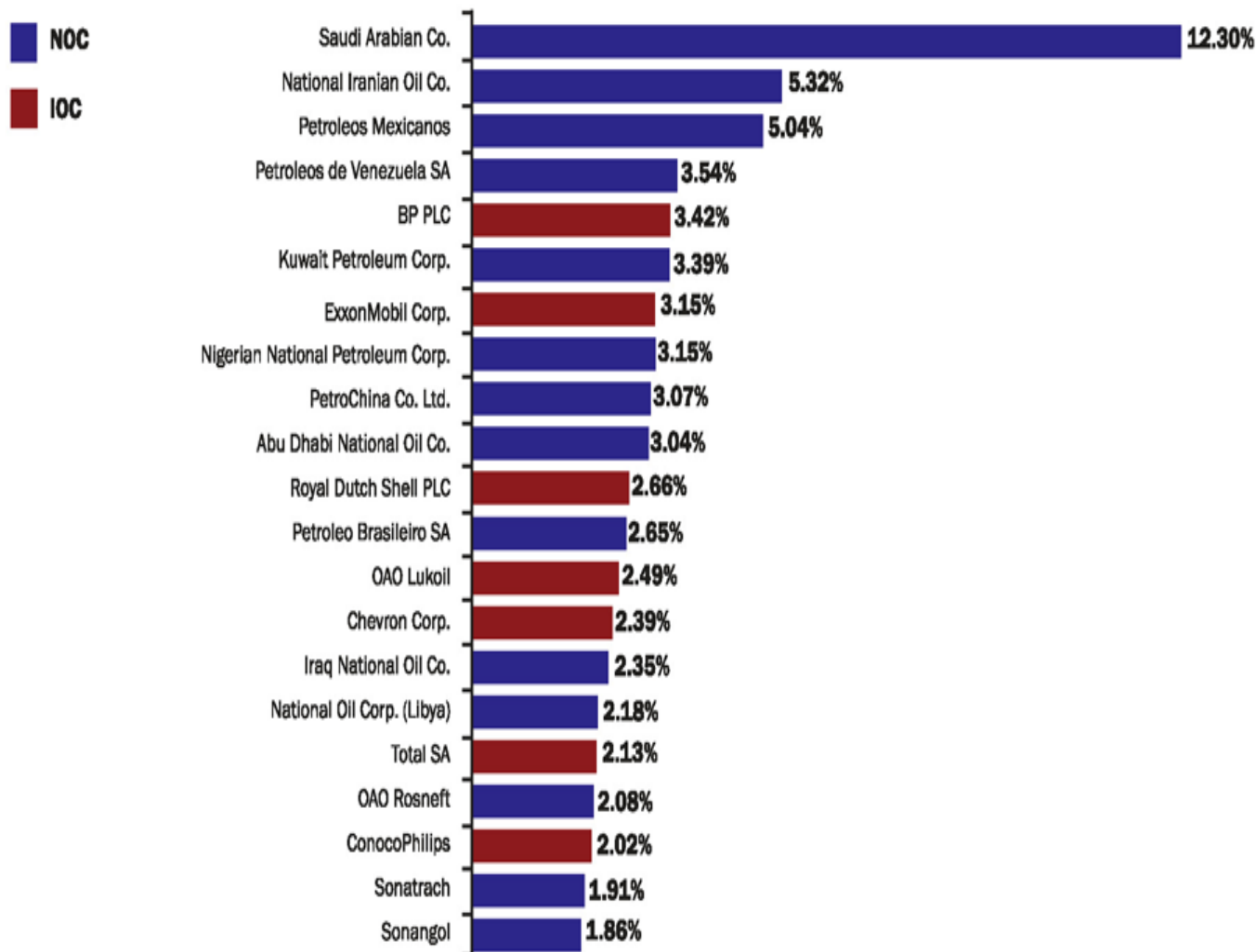
## 2006 Largest Oil and Gas Companies (percent of worldwide reserves)



Source: World reserves of 1.3 trillion barrels as of January 1, 2007 according to *Oil and Gas Journal* December 24, 2007  
 Leading companies: *Oil and Gas Journal* September 17, 2007



## 2006 Largest Oil and Gas Companies (percent of worldwide production)

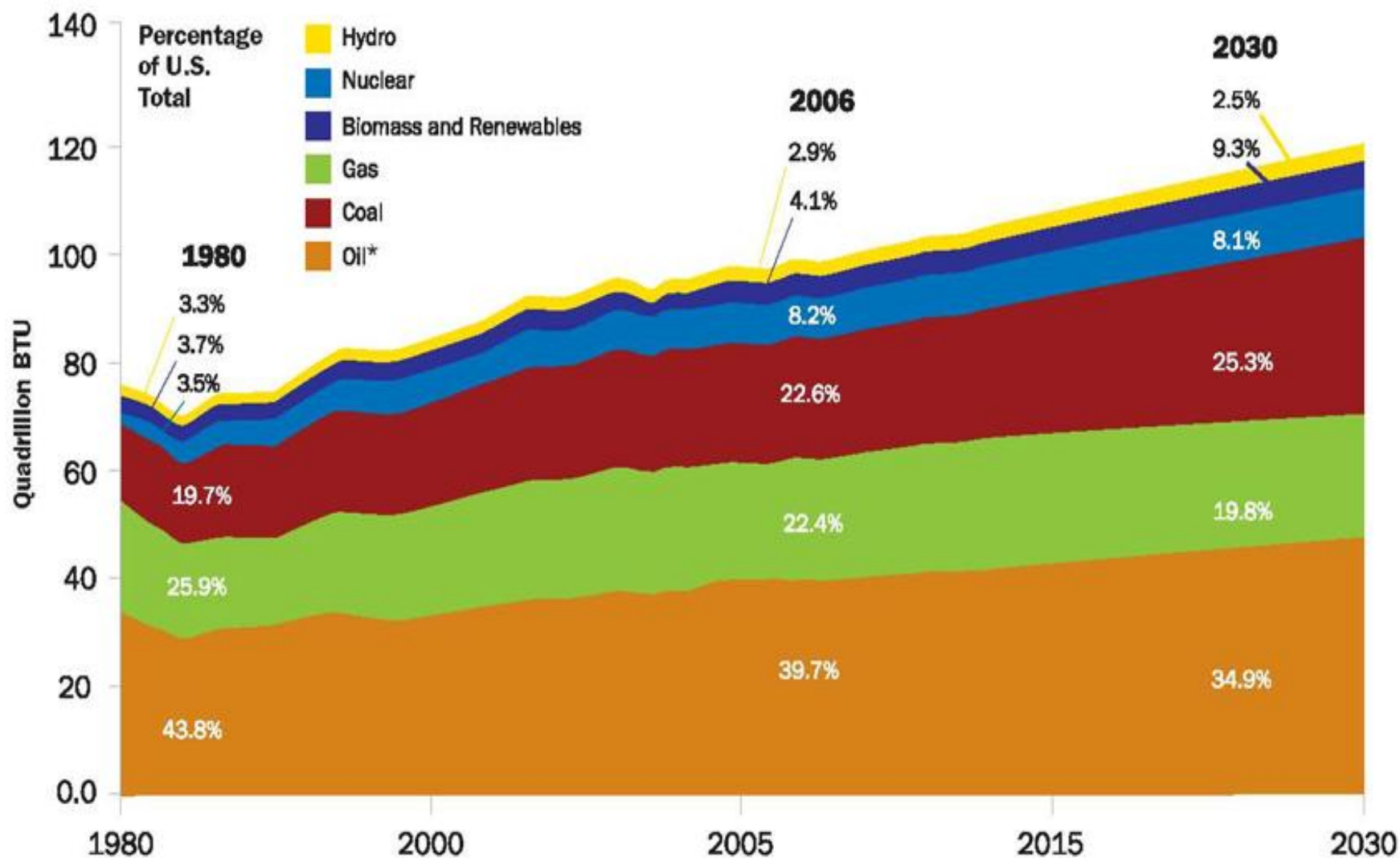


Source: Estimated world total of 72.4 million barrels a day in 2007 according to *Oil and Gas Journal* December 24, 2007

Leading companies: *Oil and Gas Journal* September 17, 2007

## Future U.S. Energy Demand

- The U.S. will require 19% more energy in 2030, than in 2006.

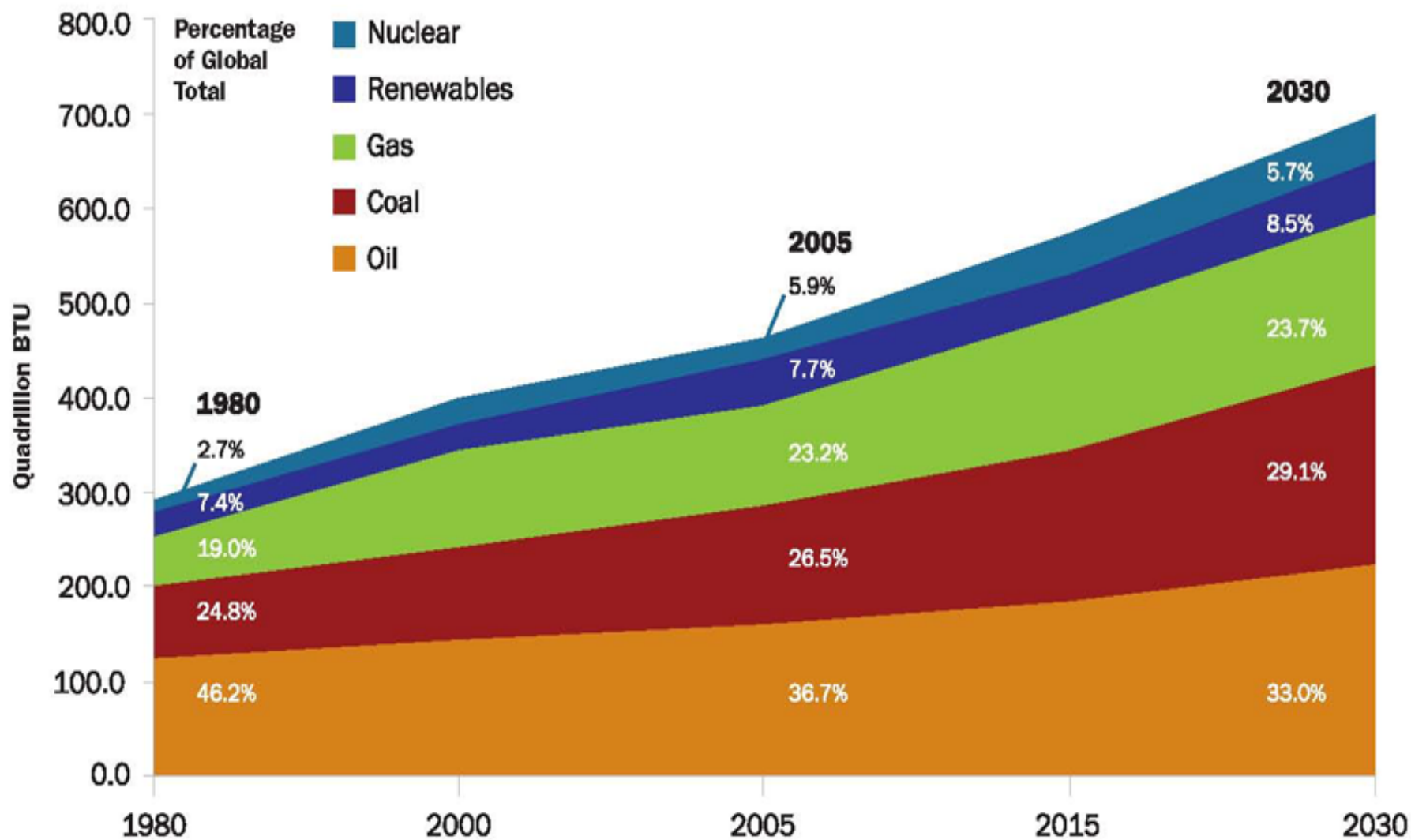


Source: EIA, AEO 2008

\*excludes ethanol and other biofuels, they are counted in biomass and renewables

## Future Global Energy Demand

- The world will require 50% more energy in 2030, than in 2005.



Source: EIA, International Energy Outlook 2008

## U.S. Crude Oil (Bbl) and Natural Gas (Tcf) Resources

(Undiscovered Technically Recoverable Federal Resources)\*



116.4 billion barrels is enough oil to power over 65 million cars for 60 years.

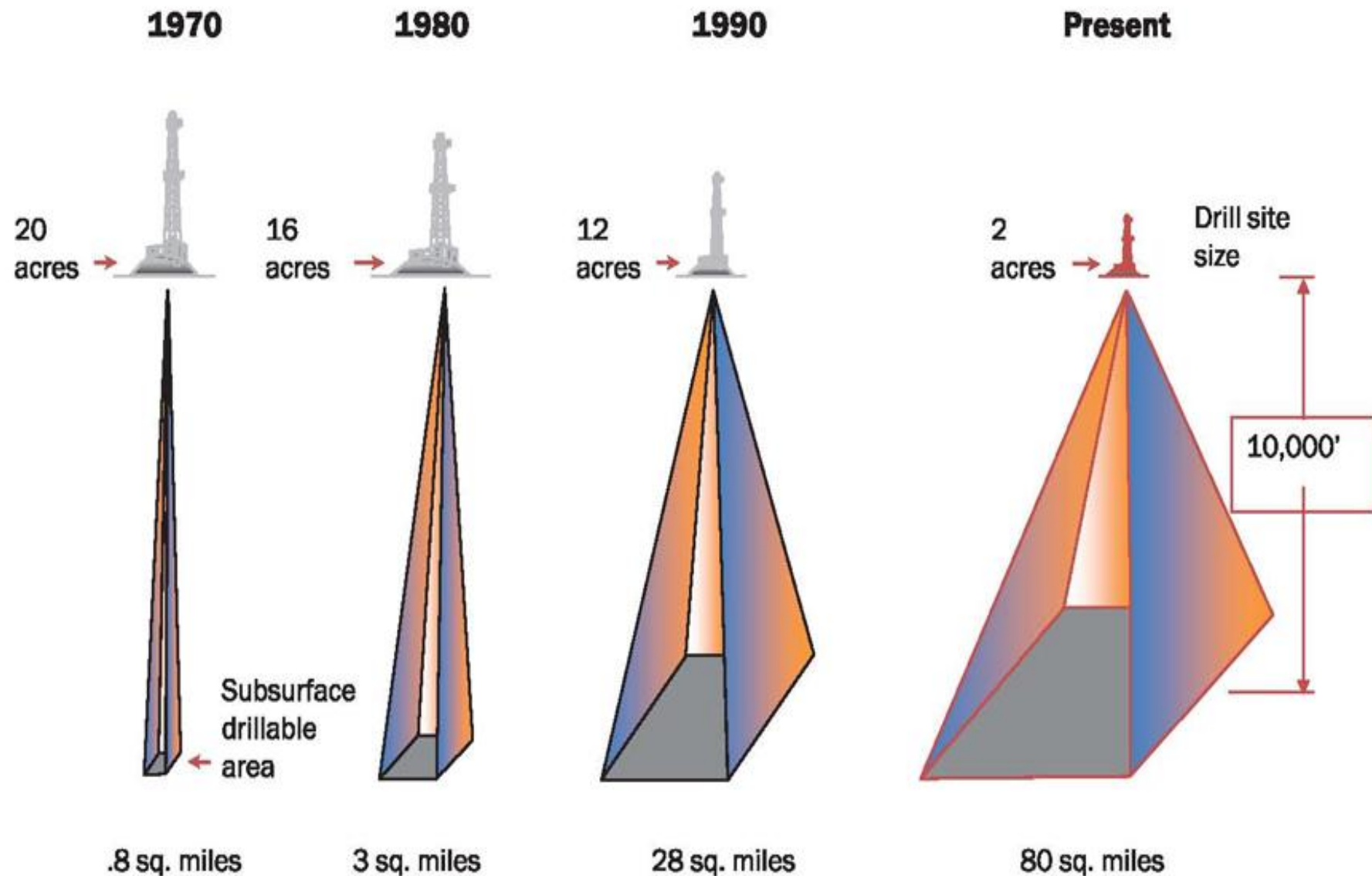
650.9 trillion cubic feet is enough natural gas to heat 60 million homes for 160 years.

Source: MMS, BLM, and API calculations

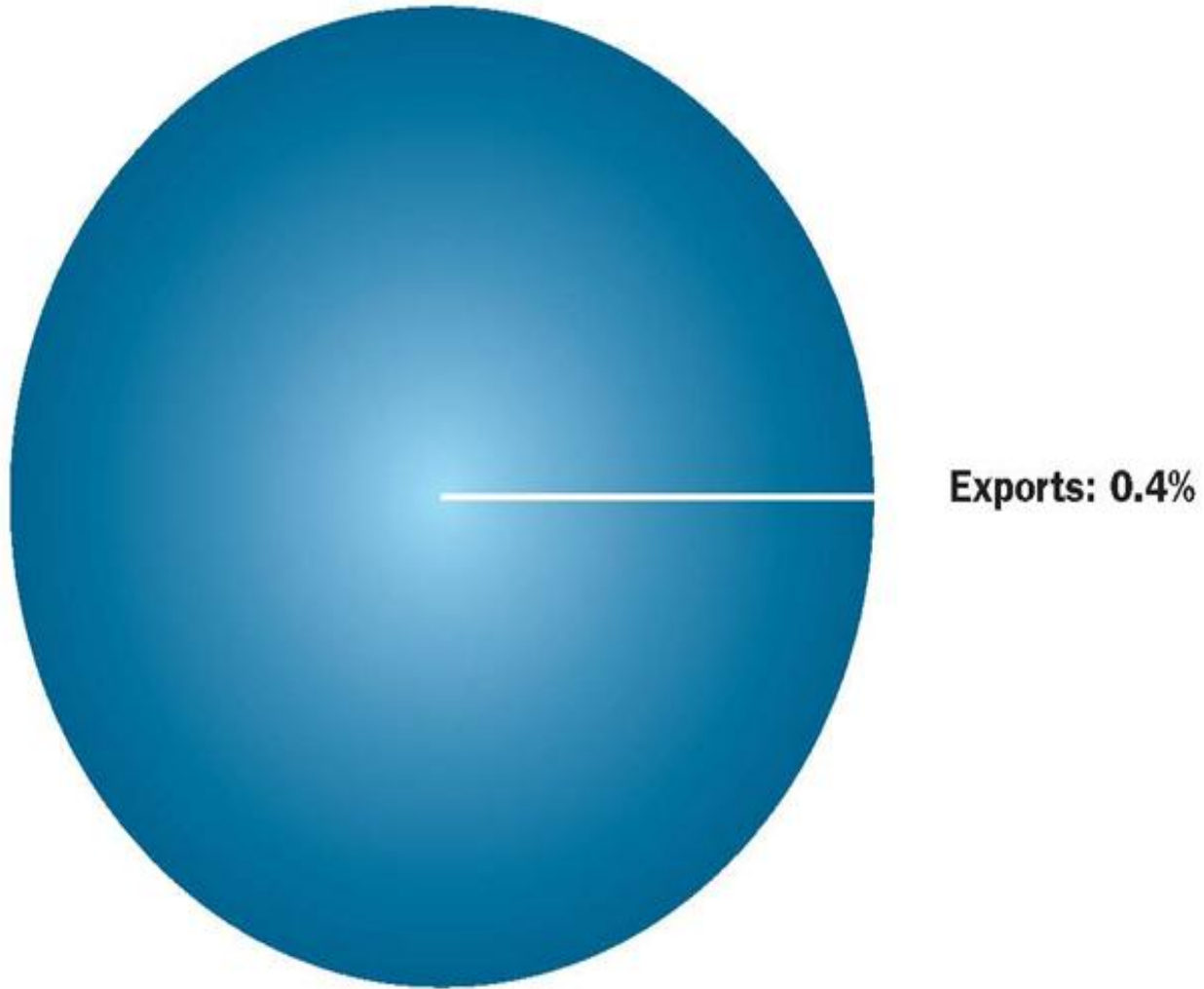
\*Figures may not add exactly to total due to rounding.



## Precision Drilling – A Dramatically Smaller Footprint

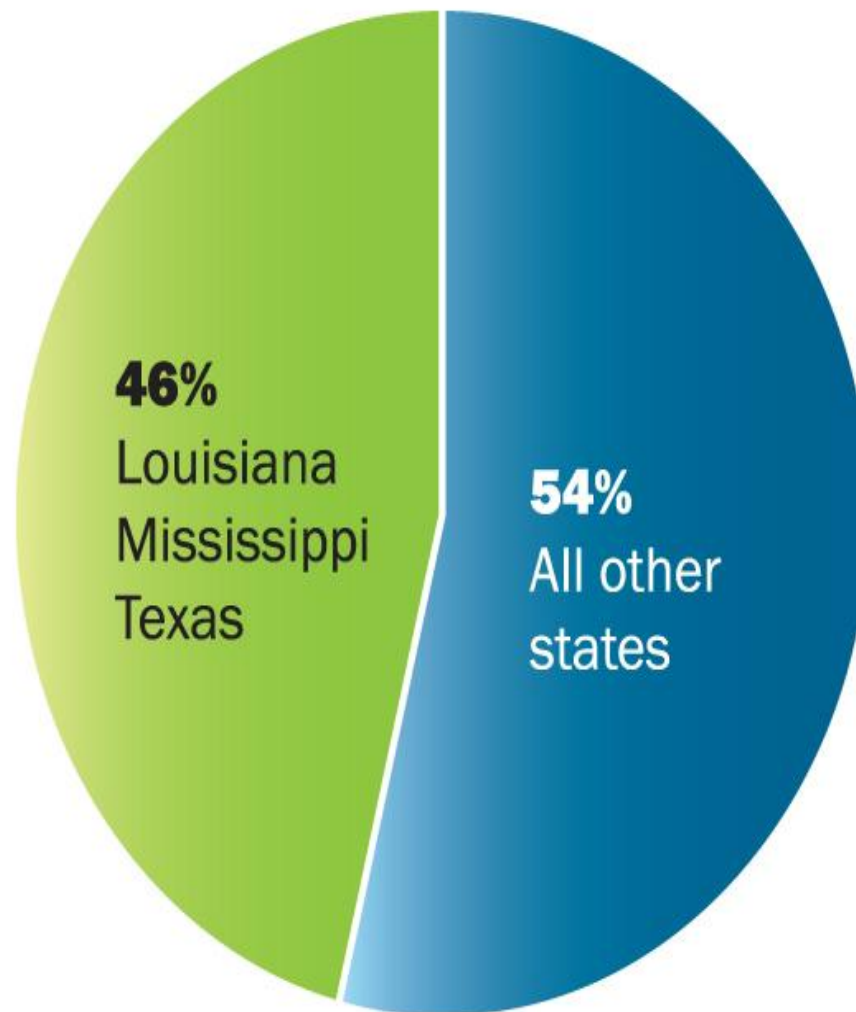


## **U.S. Crude Production** (million barrels per day)



## Refining Capacity

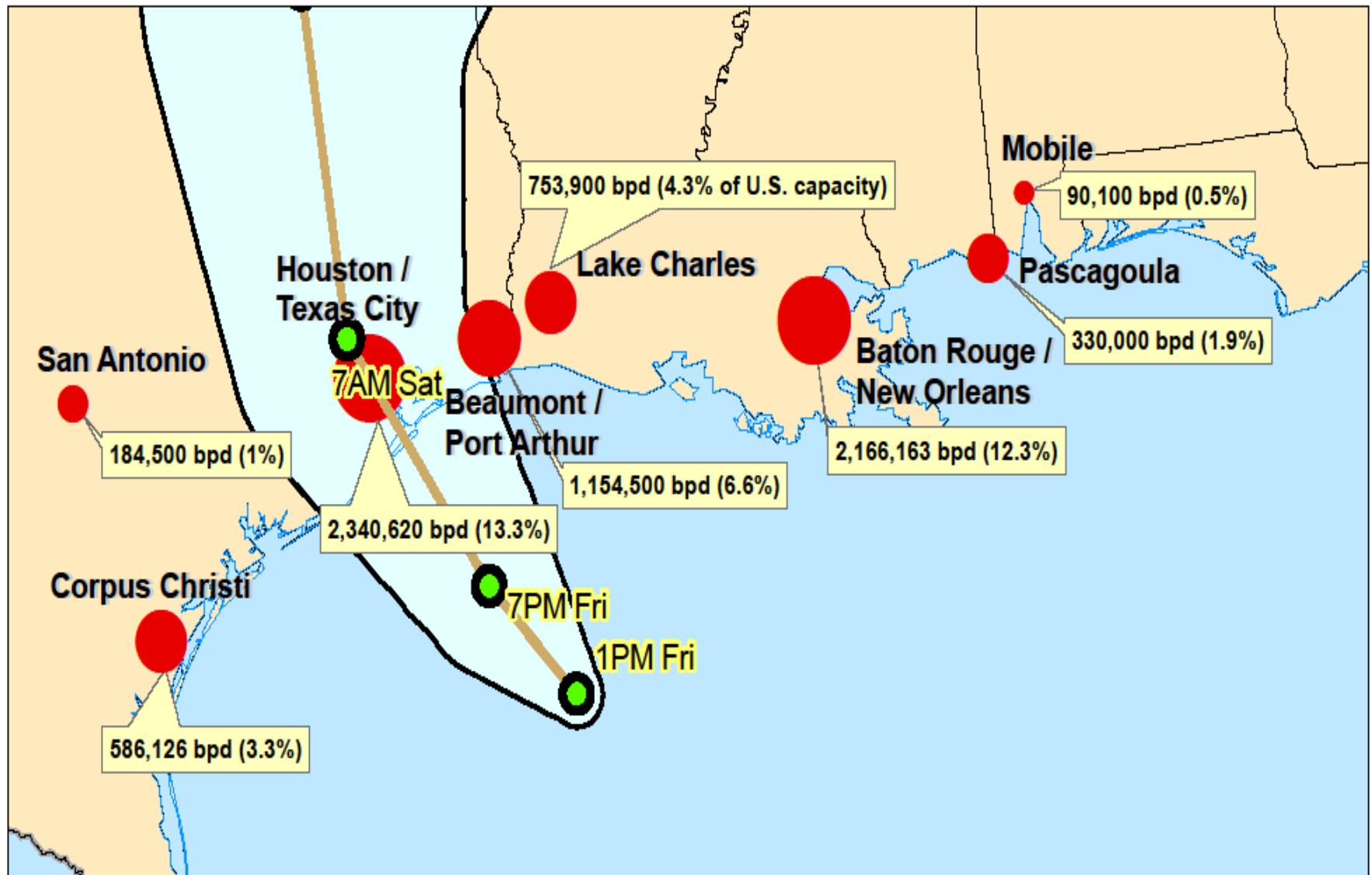
- Total U.S. capacity equals 17.9 million barrels per day



Source: DOE

# Gulf of Mexico Refining Capacity

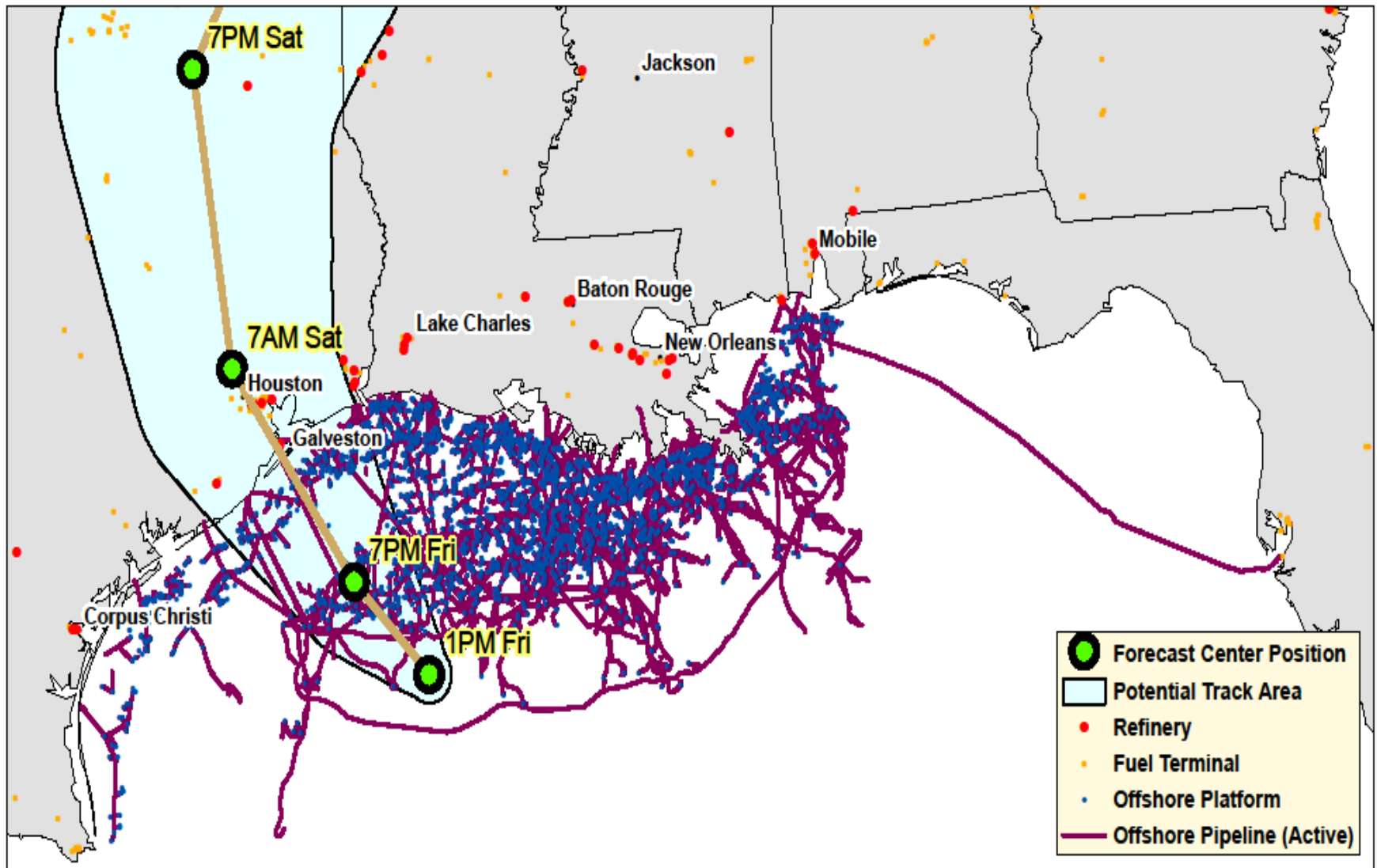
*Hurricane Ike*



Source: Energy Information Administration, "Ranking of U.S. Refineries" and National Hurricane Center data (5 day tracking forecast) as interpreted by API.  
Data current as of 09/12/08 (2PM).

# Gulf of Mexico Oil & Gas Infrastructure

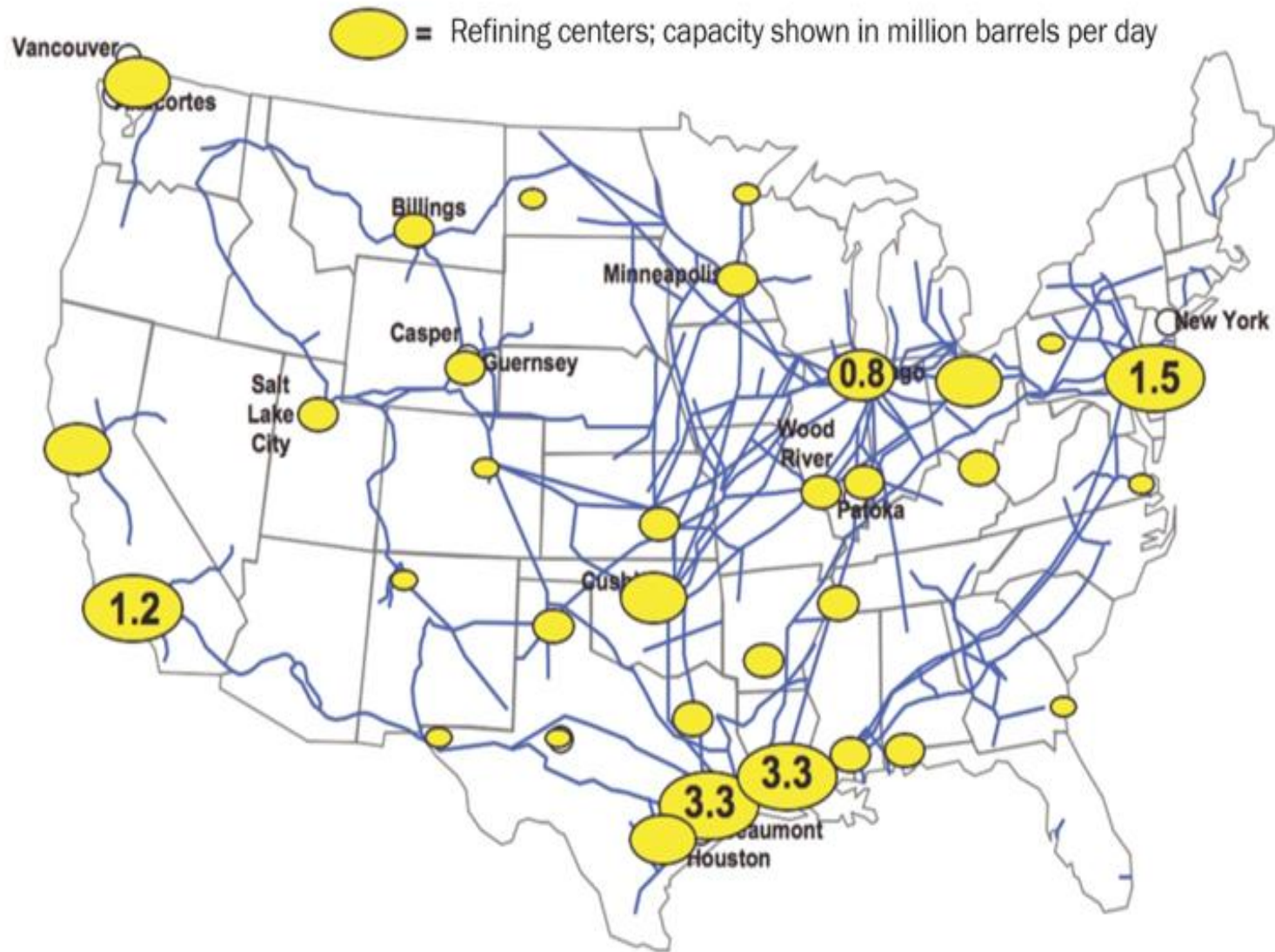
## Hurricane Ike



Source: EIA data, Minerals Management Service (MMS) data, and National Hurricane Center data (5 day tracking forecast) as interpreted by API. Data current as of 09/12/08 (2PM).



## Interconnected Petroleum Supply System



## Policy Choices Needed to Ensure Future Energy Security

- ❖ Reduce barriers to increasing domestic supplies.
- ❖ Encourage energy efficiency.
- ❖ Encourage investment in long-term energy initiatives and advanced technologies.
- ❖ Rely on market forces to allocate products.
- ❖ Refrain from new taxes that make it more expensive to develop our domestic supplies.
- ❖ Support the need to participate actively in global energy markets rather than isolate the U.S.